

Message Text

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ACTION EUR-12

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SUBJ: STEEL - MMRA RESCUE PROGRAM ANNOUNCED

REF: LUXEMBOURG 666, 8/26/77 AND BRUSSELS 11227, 9/6/77

1. SUMMARY: THE RESCUE PLAN JOINTLY PROPOSED FOR THE
MMRA STEEL COMPANY BY THE ARBED AND COCKERILL GROUPS,
SUBJECT TO THE APPROVAL OF LUXEMBOURG AND BELGIAN GOVERN-
MENTS AND UNDER WATCHFUL SCRUTINY OF THE EC COMMISSION,
HAS JUST BEEN MADE PUBLIC. PRINCIPAL FEATURES OF THE PLAN
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INCLUDE: (A) RESTRUCTURING OF MMRA OPERATIONS BY PROGRESSIVE
INTEGRATION WITH ARBED; (B) PROGRESSIVE REDUCTION OF 700
JOBS BY "NATURAL DEPARTURE", IE. ATTRITION, EARLY RE-
TIREMENT BUT NO FIRINGS; (C) NON-REPLACEMENT OF BLAST
FURNACES AND CANCELLATION OF CONSTRUCTION PLANS FOR A
NEW ROLLING-MILL AT RODANGE - THIS AT THE INSISTANCE OF
THE EC COMMISSION; (D) AN INCREASE IN THE CAPITABILIZATION

OF THE COMPANY TO ABOUT ONE BILLION FRANCS; (E) PARTICIPATION BY THE NEWLY-OPERATIVE GOL NATIONAL CREDIT AND INVESTMENT SOCIETY AND TO A LESSE EXTENT BY THE COMPARABLE GOB AGENCY.

APPROVAL OF THE PLAN BY ALL PARTIES CONCERNED IS EXPECTED BY THE END OF JANUARY. END SUMMARY

2. BACKGROUND: IN KEEPING WITH THE SEPTEMBER 3, 1977 AGREEMENT BETWEEN BELGIAN AND LUXEMBOURG GOVERNMENTS BEFORE THE EC COMMISSION (SEE REFTEL), A JOINT STUDY OF COORDINATED ACTIONS ("SYNERGIES") ON BEHALF OF THE MMRA STEEL COMPANY WAS PREPARED BY SOCIETES COCKERILL AND ARBED AND PRESENTED TO THE GOVERNMENTS AND EC ON NOV. 30, 1977. THE TWO STEEL GROUPS RECOMMENDED A SOCIAL/ECONOMIC/FINANCIAL RESTRUCTURING OF MMRA DIRECTED BY ARBED RATHER THAN COCKERILL (ALTHOUGH THE LATTER REMAINS PREPARED TO OFFER AN OPTION SHOULD THE ARBED FORMULA NOT BE AGREED UPON). THE EC COMMISSION GAVE ITS OPINION - AND THE EXPERTISE OF THE MCKINSEY STUDY - ACCORDING TO WHICH A COORDINATED ACTION BETWEEN MMRA AND, PREFERABLY, ARBED WOULD BE IN KEEPING WITH THE STEEL INDUSTRY RESTRUCTURING GOALS ANNOUNCED FOR THE COMMUNITY. THE BELGIAN AND LUXEMBOURG GOVERNMENTS AFTER STUDY OF THIS PROPOSAL, PLEDGED ON DEC. 23, 1977, FINANCIAL AND MANAGEMENT MEASURES TO ASSURE THE UNCLASSIFIED

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SHORT-TERM OPERATIONS OF MMRA AND LONG-TERM SUCCESS OF THE RESTRUCTURING. THE TWO GOVERNMENTS, ALONG WITH THE EC COMMISSION, ALSO REAFFIRMED THEIR DETERMINATION TO GUARANTEE EMPLOYMENT AT ATHUS (BELGIUM) AND RODANGE (GRAND DUCHY).

3. THE JOINT DECLARATION ON MMRA WAS ISSUED ON DEC. 29, 1977, BY THE BELGIAN AND LUXEMBOURG GOVERNMENTS TOGETHER WITH THE EC COMMISSION. THE MAJOR CONCLUSIONS AND RECOMMENDATIONS WERE:

A. TECHNICAL-ECONOMIC:

- (I) THE PRODUCT AND MARKET ORIENTATION OF MMRA IS CONSIDERED VALID GIVEN EFFORTS FOR INCREASED PRODUCTIVITY AND RATIONALIZATION;
- (II) FOR THE MEDIUM-TERM THE LIQUID PHASE OF MMRA'S STEEL PRODUCTION, IE. BLAST FURNACE AND ROLLING MILL, IS TECHNICALLY AND ECONOMICALLY OUT-OF-DATE;
- (III) THE CONSENSUS OF VARIOUS EXPERTS, AND PARTICULARLY OF THE EC COMMISSION, IS THAT REPLACEMENT OF THE RODANGE BLAST FURNACES AND ROLLING MILL ARE HARD TO JUSTIFY IN THE CONTEXT OF THE EUROPEAN STEEL INDUSTRY OF WHICH LUXEMBOURG IS AN INTEGRAL PART;

(IV) THE IMPLEMENTATION OF COORDINATION ACTION ("SYNERGIES") BETWEEN MMRA AND ARBED SHOULD BE DONE PROGRESSIVELY AS A FUNCTION BOTH OF OPERATIONS ACCOUNTS AND OF A CONCERN TO MINIMIZE LAY OFFS.

B. SOCIAL: THE ACTION PLAN MUST RESPECT THE BASIC PRINCIPLES OF THE SEPT. 3, 1977 AGREEMENT TO MAINTAIN A MINIMUM OF 200 STEEL JOBS AT ATHUS AND TO REDUCE PROGRESSIVELY AT RODANGE 700 JOBS WITH THE AGREEMENT OF THE WORKERS CONCERNED (PRIMIARILY BY ASSIGNMENT TO THE "ANTI-CRISIS DIVISION" LABOR POOL).

C. FINANCIAL:

(I) ASSUMING THAT ALL PARTIES CONCERNED WILL AGREE ON THE PROPOSED ACTION BY THE END OF JANUARY 1978, OWNER-SHIP SHARES WIL BE EXTENDED TO ALL PARTIES INVOLVED
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IN THE RESTRUCTURING OF MMRA;

(II) TAKING ACCOUNT OF THE RETAINED TECHNICAL-ECONOMIC ORIENTATION OF THE COMPANY, ITS CAPITAL SHOULD BE RAISED TO APPROXIMATELY 800 MILLION - 1 BILLION FRANCS;

(III) IN KEEPING WITH ARTICLE 66 OF THE ECSE TREATY, FUTURE SHAREHOLDERS ARE INVITED TO NEGOTIATE THE ALLOCATION OF CAPITAL;

(IV) AWAITING THE ENTRY INTO FORCE OF THE NEW STOCKHOLDER ORGANIZATION OF THE RESTRUCTURED COMPANY, THE COMMIS-SIONERS OF THE TWO GOVERNMENTS WILL CONTINUE THE EXERCISE OF THEIR FUNCTIONS;

(V) THE NON-INDUSTRIAL ASSETS OF THE COMPANY WILL BE RE-ASSESSED AS SOON AS POSSIBLE;

(VI) THE MORATORIUM (ON SHARE TRANSACTIONS) PUT INTO EFFECT ON SEPT. 3 WILL BE EXTENDED TO MARCH 31, 1978.

D. MANAGEMENT:

(I) THE ADMINISTRATION AND OPERATION OF THE RESTRUCTURED COMPANY WILL BE ASSURED BY THE COUNCIL OF ADMINISTRATION WHICH WILL INCLUDE, APART FROM THE WORKER REPRESENTATIVES, AT LEAST ONE REPRESENTATIVE PER CATEGORY OF SHAREHOLDERS;

(II) A TECHNICAL OPERATIONS CONTRACT WILL BE CONCLUDED BETWEEN THE COUNCIL OF ADMINISTRATION OF MMRA AND THE COMPE-TENT ARBED BODY TO ENSURE A MANAGEMENT BOTH EFFICIENT AND IN CONFORMITY WITH THE COORDINATED ACTION PLAN;

(III) A FINANCE COMMISSION COMPOSED OF A REPRESENTATIVE OF ARBED, SHAREHOLDERS AND PUBLIC SECTOR MONEY LENDERS AND RESPONSIBLE TO THE COUNCIL OF ADMINISTRATION, WILL OVERSEE THE COMPANY'S FINANCIAL OPERATIONS AND REPORT REGULARLY TO THE COUNCIL;

(IV) AWAITING THE ENTRY INTO-FORCE OF THE FINAL LEGAL AND FINANCIAL STRUCTURES OF MMRA, ARBED WILL PARTICIPATE IN PREPARATORY WORK AND IMPLEMENTATION OF THE NEW STRUCTURES AND, EFFECTIVE IMMEDIATELY, ACT AS MANAGEMENT COUNCIL.
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4. COMMENT: THE MMRA REORGANIZATION PLAN AS ANNOUNCED CONTAINS THE EXPLICIT ENDORSEMENT OF THE TWO GOVERNMENTS AND THE EC COMMISSION AND THE IMPLICIT ENDORSEMENT OF ARBED AND COCKERILL. THE THREE LUXEMBOURG LABOR UNIONS INVOLVED AT MMRA DID NOT PARTICIPATE IN THE DEVELOPMENT OF THE PLAN AND ONLY NOW CAN NEGOTIATE ON THEIR SPECIAL INTERESTS. IN A JOINT COMMUNIQUE, THE UNIONS WELCOMED THE RESUCE OF MMRA FROM BANKRUPTCY AND THE BREATH OF LIFE GIVEN BY THE GOVERNMENTS AND THE EC BUT ARE NOT CONVINCED THAT SUFFICIENT CONSIDERATION WAS GIVEN TO THEIR CONCERNS. THE UNIONS ASK FOR JOB GUARANTEES FOR STEEL WORKERS, NO LAY-OFFS OTHER THAN BY "NATURAL DEPARTURES", A MORATORIUM ON MMRA'S BLAST FURNACE AND ROLLING MILL OPERATIONS UNTIL 1982, AND PRIORITY ATTENTION TO ATTRACTING NEW INDUSTRIES AND JOBS TO THE RODANGE AREA. IT IS NOT YET CLEAR WHETHER THE UNIONS THEMSELVES OR THEIR MEMBERS WILL BECOME SHAREHOLDERS IN THE NEW MMRA. THE FINAL PHASE OF NEGOTIATIONS NOW BEGINS WITH THE UNIONS ALTHOUGH MAJOR CHANGES ARE UNLIKELY GIVEN THEIR GENERAL SATISFACTION WITH THE ANNOUNCED MEASURES. PHILLIPS

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